From Informal Enterprises to an African Mittelstand: Differentiations in African Entrepreneurship

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1. The Rise of African Entrepreneurship: Hype or Reality?

Currently, many discussions revolve around the middle classes[2] in Africa, such as their consumer behaviour as well as whether they contribute to democratisation. Due to high GDP growth rates and urbanisation processes in many countries, there is in fact a trend towards changing consumption habits. According to the World Bank, consumer spending contributes significantly to growth in Africa.[3] Market potential estimates have led to international and African supermarket chains becoming more active on the African continent. Walmart International, Massmart, Shoprite, and Carrefour have now opened hundreds of supermarkets throughout Africa. They meet the demand of the new middle classes, which comprise officials and employees in large enterprises, government departments, universities, and the service sector (e.g. banks, information and communications technology companies, development cooperation, and consulting firms).

Following the publication on "dynamics of the middle class in Africa" by the African Development Bank (AfDB 2011), the discussion about the middle classes[4] gained momentum. According to the report, people whose consumption is an average of USD 2–USD 4 per day belong to the middle class (floating class).[5] All those who earn USD 4–USD 20 per day form the core of the new middle classes in Africa. Although the consumption and the consumer behaviour of the middle classes are at the centre of the discourse (AfDB 2011; Banerjee and Duflo 2008; Birdsall 2015; Ravallion 2009; Ncube and Lufumpa 2014), a discussion about the *African Mittelstand*, or medium-sized enterprises (MEs),[6] and its connection with the development of a new class of consumers has begun to emerge. Some authors refer to

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[1] I thank Babette Never of the German Development Institute (DIE) for her valuable suggestions.

[2] For overviews and critical reflections of the concept of the middle class, see Lentz 2015; Melber 2013 and 2016; Akinkugbe and Wohlmuth 2016.

[3] http://www.worldbank.org/en/region/afr/publication/africa-s-ample-resources-provide-an-opportunity-for-inclusive-growth (last accessed 16.03.2016).

[4] In this paper the term 'middle class' is used. This is understood from an economic standpoint, especially that of asset group, which can be classified as neither rich nor low-income.

[5] Simon Freemantle, a senior analyst at Standard Bank's Africa Political Economy Unit argued that "There is a huge floating middle class within this definition and they can slip into absolute poverty, if they encounter an external shock. They are particularly vulnerable in Africa because we are talking about very import-heavy economies here. This floating middle class spends most of its money on food. If food prices rise then they are very vulnerable". http://africanbusinessmagazine.com/region/continental/how-big-really-is-africas-middle-class/; see also Henning Melber (2017), It's time to lift the ideological haze in debates about Africa's middle class, The Conversation April 23, 2017. https://theconversation.com/its-time-to-lift-the-ideological-haze-in-debates-about-africas-middle-class-76365; see also Tschirley, Reardon et al. 2014.

[6] Table 1 offers an overview of various types of enterprises with further information.

an alliance of small and medium-sized enterpreneurs (SMEs) or rather between business development and the middle classes. Nancy Birdsall (2015) associates the middle class term with the possibilities for individuals and companies that seize business opportunities. Matthias Doepke and Fabrizio Zilibotti (2008) deem the middle class to be a resource for business development and generally assume that the middle class households are more likely to save, accumulate capital, and be willing to take risks. Some entrepreneurs have become innovative 'Schumpeterian' entrepreneurs, using innovations to succeed in the market and make profits (cf. Kappel et al. 2003). Employing a dualistic approach, Abhijit V. Banerjee and Esther Duflo (2008) make the distinction between 'opportunity entrepreneurs' and 'entrepreneurs by necessity', with the latter earning just enough to live on. For them, the informal sector is the urban survival economy. With the rise of the middle classes, both claim to have witnessed an 'innovation and entrepreneurial drive' led by 'opportunity entrepreneurs.' Martin Ravallion (2009) postulates that the role of the middle class consists of advancing economic development through enterprise. Judith Esuha and Denise Fletcher (2002) speak of an 'invisible middle' in the field of business. Xinshen Diao and Margaret McMillan (2015) emphasise the importance of local, 'mid-level' or 'in-between' growth of SMEs (small and medium-sized enterprises) for economic growth (cf. also Ayadi and Ben Aissa 2014; Altenburg and Lütkenhorst 2015).

This paper analyses the extent to which an African Mittelstand has been developed due to the enlargement of the middle class. It examines the following questions: Do small businesses grow and eventually become the African Mittelstand? Is growth of MEs caused by an emerging and growing urban middle class? Is middle-class consumption causing a growing demand for products from local MEs?

Representations of the relationship between SMEs and the middle classes exhibit a number of methodological problems – one in particular being the fact that the nexus between general economic growth and enterprise development has not yet been clearly developed (cf. Naudé 2013). Thus, for example, the terms informal sector and SMEs are defined differently in academic discourse and respective national descriptions. It is necessary to clarify which businesses belong to the SME sector, how large companies in the informal sector are, and what proportion of them can be considered SMEs or even MEs (cf. Dey 2007; Liedholm and Mead 1999; Kappel et al. 2003; Wohlmuth 2004). Is this change caused by private enterprises' growth, as stated, for example, by Tilman Altenburg and Wilfried Lütkenhorst (2015)? Or are the growing middle classes stimulating this transformation process from small business to modern business? Or is this conversion process shaped by the fact that businesses are technologically evolving and becoming competitive in order to cope with competition from importers? There is a lack of relevant studies on the development of the middle classes and the dynamics of the Mittelstand. In fact, to my knowledge, there are currently no relevant empirical studies.

The hypothesis presented here postulates that the growth of the middle classes has provoked a greater demand for consumer goods, which has led to a process of differentiation among local suppliers and the emergence of an African Mittelstand that is able to meet this demand. The extent to which this is the case is examined below. Section 2 presents the state of discussion. Section 3 gives an insight into the structural transformation of Africa and the role this plays in the development of SMEs. Section 4 uses the case of Uganda to elaborate on how the 'missing middle' dissolves. Section 5 summarises the results and places them in the African context.

2. Theoretical Approaches in Retrospect: Why Dichotomies Are Not Suitable

For many years academic literature has presented an image of modestly growing entrepreneurship in Africa, particularly among micro- and small enterprises. Meanwhile, however, numerous studies have shown that entrepreneurship is diverse. There is a dynamic within the informal sector (IS) as well as a growing dynamic within a more productive segment in the SME sector (Kappel et al. 2003). For these studies, company size is often of central importance. Through his analysis of data from nine African countries, Johannes van Biesebroeck (2005) finds that larger firms (a) are more productive, (b) survive more easily, (c) grow more markedly and improve their productivity faster, and (d) stay large. By contrast, small firms find it more difficult to grow and increase productivity. In various studies (the lack of) productivity growth is considered to be key. In addition, SMEs are considered to be faced with greater obstacles than are large enterprises – a theory supported by various studies. Måns Söderblom and Francis Teal (2004), for example, illustrate that underdeveloped financial and legal systems limit the growth potential of SMEs. In their investigations into companies, they find that most SMEs are inefficient and that Africa's domestic markets are small. Therefore, new jobs must be created, mainly in the export industry. This requires increasing the productivity of companies. Söderbom and Teal (2004) also describe a connection between market-size development and enterprise development. Authors such as Paula Nagler and Wim Naudé (2014) see geographical isolation and a lack of population purchasing power, especially among rural residents, as obstacles to growth for most microenterprises. Other authors, meanwhile, point to the lack of technical expertise and inadequate management skills (cf. Kigombe 2014).

Thus a fundamental question arises: How can a Mittelstand emerge amidst a relatively poor population and a comparatively small middle class? How are market size development and income distribution of the poor, rich, and middle classes interrelated with industrialisation and Mittelstand development?

To gain a more detailed picture of the dynamics of African enterprises, it is useful – following on from the work of Gustav Ranis and Frances Stewart (1999) – to distinguish between the modern sector, which comprises large-scale industry, the informal sector, and the survival economy in both rural and urban areas. Although the dualistic approach is criticised below and further differentiated, it is able to highlight the main features of the debate on the development of enterprise development. In the above-mentioned models the informal sector is considered to be the traditional or subsistence sector, from which an enterprise can cross over to the formal sector through growth (Naudé 2013: 9).

1. The *modern sector (MS)* is characterised by high capital intensity and high marginal labour productivity.[7] Wage labourers are employed, and wages are higher than the subsistence income.

2. The *survival sector (SS)* absorbs surplus labour and exhibits very low labour productivity. Here income levels are directly dependent on labour productivity. This sector is unable to generate the necessary surplus for capital accumulation. In the SS microenterprises with limited financial income dominate.

3. The *informal sector (IS)* is growing in large parts of Africa. Enterprises in the IS remain largely small. Carl Liedholm and Donald C. Mead (1999) proved this empirically with their analysis of some 70,000 companies with less than 10 employees in southern Africa; recent studies confirm these findings (cf. Kappel et al. 2003; Grimm et al. 2012; Ayadi and Ben Aissa 2014). The reasons for this are to be found, above all, in the following systemic conditions:

> 1. Rural-urban migration has led to an increase in informal activities and in the number of micro- and small enterprises in African cities. This has given rise to a labour surplus in these cities, which the modern sector cannot absorb due to the fact that it grows more slowly than the number of workers. Barriers to access to the MS (e.g. taxes, government regulations, and corruption) as well as weak institutions (education, infrastructure, etc.) force many workers to remain in the IS.
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> 2. Polypolistic competition prevails in the IS due to the unlimited supply of labour (Lewis 1954). Most companies in the IS pursue a minimalist, survivalist or risk-averse strategy (Kappel et al. 2003).
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> 3. Few enterprises are innovative. In general, they have low skill and productivity levels. Informal learning is the rule and often occurs at the level of learning by doing.
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> 4. Access to bank credit is difficult as most businesses do not get financing due to inadequate collateral. These companies are therefore dependent on funds provided by family and microcredit institutions; the latter, however, only award microloans.

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[7] Marginal labour productivity describes how much production increases when an additional unit of labour is used in the production process while all other production factors are held constant. Grimm et al. (2012) have a different view of the dynamics of SMEs in the informal sector. They argue that typical informal enterprises should not be regarded as subsistence enterprises, as they have very high marginal returns of capital. However, due to the economic, institutional, and social constraints these companies face, these high yields are not realised.

Table 1: Typology of African SME

Type of entrepreurship	Level of Technology, Productivity	Employees	Local, regional, national and international activities	Integration in value chains	Strategies
IS traditional Micro enterprises of the informal sector	Low, very low productivity growth, family-based enterprises	< 10	Local markets; flea market activities, localized agenda, consumers of their products: poor population; low level of trust	-	Minimalistic and risk-averse strategies, more or less stagnating, survival economy
Small informal or formal enterprises	Low – but higher than IS traditional; low productivity growth, some division of labour inside the firm.	< 20	Local markets, localized urban demand, low level of trust, mainly flea market activities	-	Market-oriented, serves local urban and rural markets, low dynamic
Medium-sized entrepreneurs	Diversified level of technology; state of the art-technology higher productivity than small enterprises	> 20	Serve local and regional markets, local networking; higher trust relationship with long-term customers	Knowledge and access to technology, some are integrated in regional and global value chains, sometimes long-term contracts with customers	Dynamic segment of entrepreneurship; incremental innovations, using contracts with small enterpreneurs and govern cooperation with small enterprises
African Mittelstand	Higher productivity, state of the art technology	> 20	Serve local, national, regional and global markets	Partly sub-contractors of key firms of regional and global value chains; import of technology and knowledge	Dynamic segment of African enterprises; growing and innovative; flexible and adaptive capabilities, reg. international competition.
Big enterprises	Modern technology, high productivity	> 100	Local, regional and global market	Key firms in value chains, own „brand names“, partly sub-contractors in global and regional value chains; import of technology and knowledge	Dynamic segment of African enterprises; growing and innovativ. Own branding and own innovative products; competitive

Quelle: Typology based on studies by Brach, Kappel 2018; Altenburg 2015; Ishengoma, Kappel 2011a and 2011b.

African entrepreneurship is not adequately covered by the dualistic concepts of ‘opportunity entrepreneurs’ and ‘entrepreneurs by necessity’, because the IS is more complex than that (see Table 1). For example, enterprises are evolving with modern technology and transitioning into the MS seamlessly. Gustav Ranis and Stewart Francis (1999) (cf. also Lewis 1954; Mbaye et al. 2014) distinguish between the ‘modern IS’ (dynamic) and the ‘traditional IS’ (stagnant). The traditional IS is characterised by low capitalisation, low income, low productivity, low capacity and qualifications, stagnant technology, and family labour, and its closeness to the SS is often hardly recognisable. The modern IS is connected to the MS and consists of companies that use newer technologies, have larger capacities, and have higher incomes. Modern IS enterprises produce consumer and capital goods. In the modern IS[8] innovative SMEs dominate. In fact, some are becoming formal enterprises (Ishengoma and Kappel 2007). In addition, these companies are implementing the take-off of the suboptimal size and capacity phase and becoming more efficient. Some of them are integrated into global value chains (Kappel, Pfeiffer, Reisen 2017). Therefore, in this paper I use the term 'African Mittelstand',[9] which according to our definition comprises modern IS and MS enterprises that have more than 20 but less than 100 employees.[10] The typology in Table 1 illustrates this differentiation process.

3. Urbanisation and enterprise development: The missing middle in Africa

Dani Rodrik (2015) and other authors (cf. McMillan et al. 2014 and Timmer et al. 2014) contend that high growth is not necessarily accompanied by a structural transformation towards a modern economy with the creation of jobs in larger companies. On the contrary, in most African countries there is the risk that agricultural labourers will not find employment in urban agglomerations. At best, labourers from rural areas might find work in the low-productivity service sectors and the informal urban sectors, which are largely dominated by very small, unproductive firms.

There is a developing dynamic which reveals a tendency towards large companies, on the one hand, and many microenterprises in the traditional IS, on the other hand, while the middle class has stagnated (Gelb et al. 2014). Dani Rodrik (2015) goes one step further and offers a plausible and empirically solid explanation for the lack of industrialisation and transformation, pointing to a 'missing middle':

1. In principle, late-industrialising countries – like most countries in sub-Saharan Africa – face the problem that industrialisation can no longer be seen as a panacea for growth and jobs. While South Korea and Taiwan were able to absorb about 30 per cent of the workforce in the manufacturing industry during the 1960s to the 1980s (this was 35 per cent in Germany in 1970 and 20 per cent in Mexico in 1990), Vietnam only reached 15 per cent in 2000 (in 2010 India and China only managed 13 per cent and 16 per cent, respectively).
2. Most countries in sub-Saharan Africa have barely been able to successfully industrialise in order to achieve a significant increase in industrial employment because global competition,

[8] Numerous studies have shown that the 'modern IS' is small; there has long been a phenomenon of the 'missing middle'. Research has not established the extent to which there has been a differentiation in recent years in the wake of the emergence of the African middle class (cf. Liedholm and Mead 1999; Gelb, Meyer, and Ramachandran 2014).
[9] The African Mittelstand cannot be compared with the German Mittelstand. According to quantitative criteria, the Mittelstand in Germany includes enterprises with a maximum annual turnover of EUR 500 million; this is in contrast to international standards, which define 'small businesses' or medium-sized enterprises according to an upper limit of between 100 and 500 employees, depending on the country. For an extensive discussion, see Beck and Demirgüç-Kunt (2006).
[10] Definitions vary significantly depending on the respective country.

rapid technological change, and global shifts in demand towards services have changed the rules for economic growth. This means that the development prospects of African SMEs are limited because African enterprises are less productive than those from China and other emerging countries. Even their use of the latest technologies, which – in principle – could bring about an industrialisation thrust, is limited.

Rodrik's findings suggest that the African Mittelstand is developing slowly. Numerous local barriers also restrict the emergence of a Mittelstand and the transition from small to medium-sized enterprises. Nonetheless, some recent trends contradict Rodrik's arguments and are indicative of the 'great transformation'.[11] There are signs that Africa could complete a transformation from an agricultural society to a market society with industrialisation and innovative entrepreneurship. In parts of Africa, recent trends in urbanisation development point to a transformation in this direction.

This means that in the urban centres, dynamics emerge that take into account growing purchasing power; lower transaction costs, transportation costs, and communication costs; and the availability of skilled workers in the cities because they are relevant to the dynamics of entrepreneurship (cf. Krugman 1991 and, in the case of Africa, AfDB et al. 2016). In growing cities, there is a greater likelihood that entrepreneurialism will transform and grow. In such cities there are industrial clusters that, among themselves, enhance information flows and competition between enterprises.

Clusters, networks, and ties between enterprises represent a new development that was first observed about twenty years ago (cf. Schmitz 2004). In industrial clusters the conditions for growth and the development of SMEs are evidently better. Cluster and networks between enterprises have a particular significance for the industrial take-off. Success is dependent not only on the productivity levels of individual enterprises but also on the interaction of many enterprises which are vertically and horizontally linked.[12] The cluster concept assumes that the increasing complexity of products and services is giving rise to geographical and sectoral functional clusters. The specific requirements and characteristics of a region – for example, intraregional interlinkages and cooperation forms, cultural traditions, and qualification levels – are essential to its growth and employment prospects. Successful enterprises are integrated into cooperation and innovation milieu. Learning processes are fostered and raise the collective efficiency of companies (cf. Schmitz 2004). Thus, in clusters there is the possibility to grow faster and become more productive and innovative. Clusters offer, particularly for SMEs, good preconditions for steady and continued growth.

[11] In *The Great Transformation*, Karl Polanyi (1944) describes the profound transformation of Western society in the nineteenth and twentieth centuries, when industrialisation and political action led to far-reaching political, social, and economic changes.

[12] 'Horizontal cooperation' refers to cooperation between competitors on the same economic stage who offer similar goods. 'Vertical' cooperation involves cooperation between companies operating on different economic stages – for example, cooperation between industry and trade.

Integration into global and regional value chains plays a central role in enhancing the productivity of enterprises. Value chains enable technology transfer and upgrading. Participation in certain value chains can reduce business risks and costs (e.g. through training and acquisition of technologies); though spillover effects can occur.[13] Their involvement in value chains and long-term ties means that SMEs enjoy benefits, on the one hand, and incur (additional) costs, on the other. Long-term ties improve planning security and facilitate learning and synergies. Active cooperation (e.g. through technology and knowledge transfer) reduces transaction costs and creates trust (Brach and Kappel 2018). SMEs do not have to shoulder alone challenges such as upgrading activities and investments; rather, they are helped to develop by leading companies that actively engage in partner support and facilitate learning processes. Interestingly, there are easier ways to upgrade. For companies that do not perform their own research activities, which could lead to technological progress, there is – in particular through international trade and new information and communication means – a comparatively easy way to gain access to technologies at the world market level.

These effects reflect the findings of Arne Bigsten and Måns Söderbom (2006) (cf. also Altenburg and Lütkenhorst 2015; Bass, Kappel and Wohlmuth 2017) in their comparative analysis of African industrial development and thus demonstrate the extent to which African companies can survive in the global market. They concluded, inter alia, that integration into global value chains includes the opportunity to technologically learn and exploit economies of scale. By contrast, enterprises that are excluded from value chains often stay small and/or remain in the informal sector. African SMEs are very rarely integrated into global and regional value chains. Prominent counterexamples are the wine industry in South Africa, the leather and textile industries in Ethiopia, the flower and horticulture industries in Kenya and Uganda, and Tunisia's electronic devices and textile industries. The South African automotive industry also integrates large companies as global suppliers.

In growing cities large consumer markets emerge, which attract both foreign and domestic investors. According to *Oxford Economics*,[14] Casablanca, Cairo, and Tunis in North Africa and Johannesburg, Cape Town, Nairobi, Lagos, and Luanda in sub-Saharan Africa are the leading centres of this development. Some African cities are becoming urban hubs for the development of modern industrial and service centres that offer opportunities for technologically advanced and productive SMEs.

Basically, there is a connection between the growing middle classes in the capital cities and the industrial centres with differentiated enterprises, which offer – for example – consulting services for other companies. Modern SMEs operate in the metalworking industry and in the transport sector and serve

[13] Spillover effects are the unintended consequences of measures taken by decision makers and have objective, geographical, or temporal impacts beyond the intended target areas of the measures; they can cause both positive and negative side effects.

[14] https://www.oxfordeconomics.com/Media/Default/landing-pages/cities/OE-cities-summary.pdf (last accessed on 16.3.2016).

the leisure activities of the middle class. Thus many modern cafes, restaurants, and hotels have sprung up in recent years. Individual studies demonstrate that this process has really made headway in large urban hubs, though the differentiation of companies, however, is for the most part still low (cf. AfDB et al. 2016; Henderson and Kriticos 2017).

Other cities in Africa have not made the leap. They are typified by a large and growing number of often poorly educated underemployed, who ensure their survival through working in the retail trade and undertaking informal activities. However, the building of industrial zones and industrial clusters with modern SMEs, in which low wages and cheap land can be used as a resource, would enable them to counteract their current situations. While this is no silver bullet, in some urban centres it would smooth the way for a transformation. Because of proximity and knowledge of markets, low transport costs, and low prices for local products, local SMEs can secure a comparative advantage.

In the agglomerations, it must be determined whether a trend towards higher economies of scale, larger SMEs, companies that are technologically more modern, and higher productivity have become prevalent. Companies with high innovation potential could evolve and compete against foreign competitors, while those businesses without an adequate capital base, with low technical know-how, with a low standard of education, and without innovation capacity must be content with remaining market niches in the IS. Research in this field, however, is still in its infancy.[15]

3. The Case of Uganda: A New Dynamic of the Mittelstand?

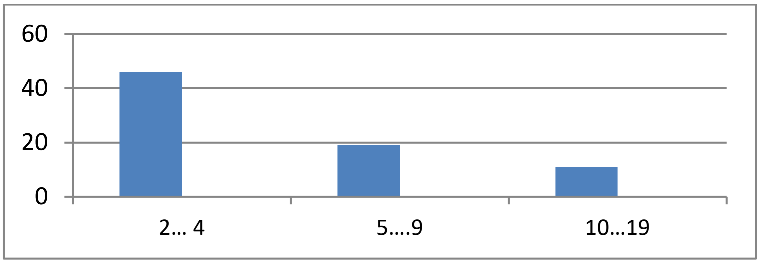
Uganda's middle class is small and its business sector is characterised by informal enterprises that largely operate in trade, retail, food production and distribution, and the production of simple consumer products (e.g. furniture, windows, etc.).[16] It is estimated that about 800,000 micro- and small enterprises operate in Uganda's rural areas and urban centre suburbs; these businesses mainly produce everyday necessities for low-income earners and the floating classes (AfDB 2011). Ninety per cent of companies are microenterprises in the traditional IS, of which 60 per cent only have one employee, and only 4 per cent have between five and nine employees. Meanwhile, just 2 per cent of

[15] Also of importance is to where foreign direct investment is flowing. Studies on Kenya, Nigeria, Morocco, and Ethiopia show that, in recent years, they have exhibited increased investment in labour-intensive sectors and make use of labour-cost advantages. So-called greenfield investments, in particular, are showing a trend towards investment in the leather, shoe, and textile industry around these countries' respective capitals. In individual cases they cooperate with local businesses (cf. AfDB et al. 2016).

[16] Lawrence Bategeka, formerly of the Economic Policy Research Centre, says that Uganda's middle class is a 'vague imagination'. He argues that Uganda's 'kind of middle class are those that shop in supermarkets. The middle class should be productive and must be able to create jobs. Ours is weak and non-progressive.' According to Bategeka, the middle class should be central to value creation (*Daily Monitor*, 24.3.2015). http://www.monitor.co.ug/Business/Prosper/Is-Uganda-s-middle-class-real-/-/688616/2663012/-/142s8gr/-/index.html (accessed on 10.5.2016).

companies employ more than 10 people. Microenterprises revenues fall below USD 1,000 per year, and 45 per cent of small enterprises with two to four employees have a turnover of less than UGX 10 million (EUR 2,800; see Figure 1) (cf. Kappel and Never 2017; Government of Uganda 2015; Government of Uganda, Ministry of Finance, Planning and Economic Development 2014; World Bank 2012).

Figure 1: Uganda: Enterprise Size (Employees) and Turnover less than 10 Mio. Sh (2800 €), 2013 (percentage share)



Source: World Bank (2014), World Bank/International Finance Corporation (2013).

Numerous studies show that the environment for SMEs in Uganda has improved during the past decade but that considerable investment barriers persist, incl. a system of favouritism (see Table 2) (Kappel and Never 2017; Kjaer 2015; Reinikka and Svensson 2002). There are three key aspects in particular that characterise the limited growth of SMEs:

1. Inadequate financial and legal systems limit the growth potential of companies. Corruption and problems with the supply of electricity and water are among the biggest obstacles for SMEs in Uganda.
2. Economies of scale and entrance costs favour large companies, as these fixed costs can be quickly absorbed.
3. Large companies in Uganda generally have greater political influence, and government tenders favour large businesses. Furthermore, due to their economic importance, there are often special arrangements in favour of large companies (cf. Kjaer 2015).

Table 2 and 3 present these aspects, showing that corruption constitutes a major obstacle to the development of enterprises. It is striking how often smaller companies are forced to pay bribes to officials in order to get access to electricity and water. Large companies benefit from the favouritism system by being awarded major contracts by the state. Inefficient bureaucracy, uncertainty about the government's economic policies, the tax burden, inadequate work ethic, and the lack of manpower are also relevant factors that affect smaller businesses.

Table 2: Ranking of Constraints to Investment in Uganda, 2008-2011, percent

	2008/2009	2009/2010	2010/2011
Factors	Average score		
Corruption	17.0	17.8	21.9
Access to finance	22.9	19.3	15.3
Poor utility services/inadequate supply of infrastructure	11.4	13.0	13.0
High taxes	9.9	8.6	8.9
Poor work ethic in national labour force	9.6	7.2	7.1
Inefficient government bureaucracy	8.6	7.1	6.7
Uncertainty about government policies	4.0	2.5	2.4
lack of skilled labour	3.4	3.7	5.0

Source: Ishengoma/Kappel (2011a and 2011b), World Bank: http://www.enterprisesurveys.org/Custom-Query/uganda (accessed on 10 May 2016).

The long-standing disadvantage faced by SMEs and the policy of favouritism have contributed to the situation in which only a small number of large companies have developed. Thus, the majority of businesses remain microenterprises. All studies for Uganda show that microenterprises hardly grow (cf. Kappel and Never 2017; Ishengoma and Kappel 2011a and 2011b; Babirye et al. 2014; Niringiye and Tuyiragize 2010; Nuwagaba and Nzewi 2013; Sejjaaka et al. 2015). Only a few local companies have succeeded in recent years to integrate themselves into value chains and achieve technological progress. These companies were able to generate productivity growth in, for example, fish processing, the flower industry, and coffee production. A World Bank study has also confirmed that Uganda only has a very small Mittelstand and that the vast majority of enterprises are microenterprises that receive credit from family members, friends, and microfinance institutions (World Bank 2014; Ishengoma and Kappel 2011and 2011b).

It can be assumed that the low growth of the Mittelstand is a consequence not only of the aforementioned obstacles but also of low consumption growth. Because the majority of the population is poor or extremely poor, their consumption possibilities are overwhelmingly limited to the purchase of food.

Table 3: Incidence of graft, small, medium and large enterprises in Uganda, percentage shares

Incidence of graft index	Uganda average	Small firms (1-19 employees)	Medium firms (20-99 employees)	Large firms (more than 100 employees)
per cent of firms experiencing at least one bribe payment request	19.3	19.8	18.8.	11.1
per cent of firms expecting to give gifts to secure government contract	5.8	6.1	8.3	1.8
per cent of firms expecting to give gifts to get a construction permit	6.5	6.5	10.9	0
per cent of firms expecting to give gifts to secure government contract to get an import licence	1.0	1.0	1.2	0
per cent of firms expecting to give gifts to get an operating license	17.8	16.9	23.4	17.1

Source: World Bank (2014).

The number of people in Uganda who earn more than USD 10 per day is extremely small, fragile, and barely grows – a situation confirmed by the World Bank. Accordingly, lowest-income consumers (the poor) account for 83 per cent of consumers (accounting for 89 per cent of the rural population and 49 per cent of the urban population); low-income consumers, 15 per cent (10 per cent of rural population; 40 per cent of urban population); and middle-income consumers, 2 per cent (0.4 per cent of rural population; 10 per cent of urban population). This means that even in the cities only 10 per cent of the population can be considered middle class (World Bank 2014).

Table 4: Middle Classes in Africa, percentage shares

	Floating Classes (2-4 USD)	Middle Class (4-20 USD)	Total
Uganda	10,6	8,1	18,7
Morocco	57,4	27,2	84,6
Gabon	37,6	37,8	75,4
South Africa	23,4	19,8	43,2
Ghana	26,8	19,8	48,6
Liberia	2,9	1,9	4,8

Source: Data African Development Bank (2011: 5).

By comparing the situation in Uganda with those in other countries, it can be seen that the proportion of the middle class varies greatly across states (Table 4). In Morocco and Gabon, for example, the middle-class shares (including both the floating class and the core middle class) are markedly larger than the share in Liberia, which is much smaller. A comparison of the companies in these countries shows that Liberia consists almost entirely of informal microenterprises (and some foreign multinationals), whereas modern SMEs play a far greater role in Morocco.[17]

5. Conclusions: Missing Middle in Africa?

Although the results for Uganda cannot be generalised, other analyses of the informal sectors in other African countries reveal a similar picture: micro- and small enterprises barely grow in most countries (Grimm et al. 2012; Mbaye et al. 2014). Large companies dominate value chains and export, while SMEs only progress in exceptional cases. However, some studies also show how greatly this changes in modern urban centres.

Previous findings emphasise that a small minority of SMEs can grow if they are integrated into global value chains and, on top of that, bring about science and technology transfer (Schmitz 2004). These analyses have so far dominated the discourse on the development of an African Mittelstand.

This article examined whether there might be a link between the development of an African Mittelstand and the rise of middle classes in particular African countries. It revealed the following:

1. In countries with small middle classes micro- and small enterprises of the informal sector play an important role.

2. It can be assumed that in countries with large middle classes – especially in those with middle classes whose incomes are more than USD 4 per day – the share of the African Mittelstand is growing, formal enterprises are taking on bigger roles, and the dynamics of an African Mittelstand is becoming more pronounced.

3. There appears to be a correlation between the growth of the middle classes in urban centres and the rise of an African Mittelstand, which uses modernised technology and can realise growth.

4. The thesis of the missing middle in enterprises indeed applies to Uganda and to many other countries (Akinkugbe and Wohlmuth 2016). However, there is evidence that in urban centres with a larger

[17] Analyses of SMEs and the IS in Lagos, Nigeria, provide further evidence of a distinct growing, modern SME sector. According to the National Bureau of Statistics, 90 per cent of enterprises in Lagos State are micro-, small, and medium enterprises (MSMEs) – though only 10 per cent of those are medium enterprises. These MSMEs produce textiles, baked goods, snacks, soap, pots, beds, sofas, aluminium windows; repair cars, refrigerators, and air-conditioning units; or operate printing shops, inter alia. Nevertheless, there is a distinct trend in the metropolis of Lagos: whereas 99 per cent of all enterprises in Nigeria are micro- and small enterprises in the informal sector, in Lagos more than 5 per cent of businesses are modern SMEs that use modern technologies. (cf. Adebisi, Chinyere Alaneme, and Ofuani, 2015; *Nation*, 27.10.2015: http://thenationonlineng.net/lagos-leveraging-on-smes-for-growth/, accessed on 15.5.2016).

middle classes, the proportion of the African Mittelstand is increasing. This is also true for example the Ugandan capital, Kampala, where – compared to rural Uganda – substantially more MEs are emerging.

If these four trends are demonstrated by research and if, in addition, there were a stable relationship between the development of the middle classes and the African Mittelstand, we could at least doubt the thesis that there is a typical form of African structural change in which an informal sector typified by low productivity remains consistently dominant. However, the research findings provide no clear evidence that the existence of middle classes inevitably leads to ME growth and a higher degree of entrepreneurial activity – something often claimed in the literature on middle classes in Africa. In fact, the relationship between middle classes and entrepreneurial activity is far more complex because – as shown in this text – other political and economic factors, such as economic policy, favouritism and the environment, are crucial to enterprises of all different sizes. If it were true that the probability of a 'major transformation' is significantly higher in countries with large middle classes than in countries with small middle classes, it would at least be an indication that the existence of large middle classes may be an important factor for the development of modern African entrepreneurship.

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